

CITY OF CHATTANOOGA, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

**DEPARTMENT OF FINANCE AND ADMINISTRATION
DAISY W. MADISON, ADMINISTRATOR**

CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter from Mayor Ron Littlefield	one
City Council	three
Finance Administrator's Letter of Transmittal	four
Certificate of Achievement for Excellence in Financial Reporting	fourteen
City Officials	fifteen
Organization Chart	sixteen
FINANCIAL SECTION	
Report of Independent Certified Public Accountants	i-ii
Management's Discussion and Analysis	iii
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2-3
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	4
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	8
Proprietary Fund Financial Statements	
Statement of Net Assets	9-10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12-13
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	14
Statement of Changes in Fiduciary Net Assets	15
Component Units Financial Statements	
Statement of Net Assets	16
Statement of Activities	17
Notes to Basic Financial Statements	18-52

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Schedules of Required Supplementary Information:

Public Employee Retirement Systems -	
Schedule of Funding Progress	53
Schedule of Employer Contributions	54

OTHER SUPPLEMENTARY INFORMATION

Combining Financial Statements

Combining Balance Sheet – Nonmajor Governmental Funds	55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	56
Combining Statement of Revenues, Expenses and Changes in Net Assets – Component Units	57
Combining Statement of Cash Flows – Component Units	58-59

Budgetary Comparison Schedules

General Fund	60-68
---------------------	-------

Special Revenue Funds

Public Library Fund	69
Downtown Development Fund	70
Human Services Program Fund	71-72
Narcotics Program Fund	73
State Street Aid Fund	74
Community Development Fund	75
Hotel/Motel Tax Fund	76
River Pier Garage Fund	77
Debt Service Fund	78

Financial Schedules

Schedule of Certificates of Deposit by Fund	79
Schedule of Investments by Fund	80
Combined Schedule of Changes in Taxes Receivable	81
Summary Schedule of Debt Service Requirements to Maturity	82-83
Analysis of General Obligation Debt	84-86
Analysis of Revenue Bonds and Other Debt	87
Schedule of Bonds, Notes, and Capital Leases Payable - by Fiscal Year	88-100

STATISTICAL SECTION

Net Assets by Component	101
Changes in Net Assets	102-103
Governmental Activities Tax Revenue by Source	104
Fund Balances of Governmental Funds	105
Changes in Fund Balances of Governmental Funds	106
Assessed and Estimated Actual Value of Taxable Property	107
Property Tax Rates – Direct and Overlapping Governments	108
Principal Property Taxpayers	109
Property Tax Levies and Collections	110
Ratios of Outstanding Debt by Type	111
Ratios of General Bonded Debt Outstanding	112
Direct and Overlapping Governmental Activities Debt	113
Legal Debt Margin Information	114
Historical Debt Ratios (Unaudited)	115
Electric Power Board System Revenue Bonds	116
Demographic and Economic Statistics	117
Principal Employers	118
Full-Time Equivalent City Government Positions	119
Operating Indicators by Function	120
Capital Asset Statistics by Function	121

SINGLE AUDIT SECTION

Schedule of Expenditures of Federal and State Awards	122-132
Notes to Schedule of Expenditures of Federal and State Awards	133
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	134-135
Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	136-137
Schedule of Findings and Questioned Costs	138-140
Schedule of Prior Audit Findings	141-142

MAYOR'S LETTER

November 29, 2006

To the members of the City Council, and Citizens of Chattanooga, Tennessee:

I am pleased to present to you the annual report of the City of Chattanooga for the fiscal year ended June 30, 2006. This report reflects the City's solid fiscal performance and financial management highlighted by policies for maintaining ample reserves and manageable capital needs. As I move into my third year as Mayor, I continue to focus on economic development, education, high paying jobs, clean safe neighborhoods and efficient delivery of government services.

Economic development, nourishing of our neighborhoods, and engaging the youth of our city in positive and productive activity will be some of our top priorities this year. With your support, I will continue to focus on the recruitment of new business and the expansion of existing business. In cooperation with Federal, State and County officials and the Chamber of Commerce, we continue our efforts to recruit businesses to Enterprise South and other areas of the City. Our efforts have begun to pay off. Our city is experiencing a one billion dollar development boom. As you look around, notice that the John Ross Bridge and City Hall renovation will be complete this year. The Blue Cross and Blue Shield complex on Cameron Hill will take shape, and the Electric Power Board building has already become a striking gateway into our city. All of these projects continue the transformation of our beautiful city into a progressive and wonderful community.

In addition to our strong focus on economic development, Chattanooga's neighborhoods will continue to get a lot of attention. We have repaired and built new sidewalks in every district in the city. Children walking to school, the elderly and the disabled have safe walkways and curb cuts for easy access. This year we began our neighborhood listening tour – a policy we plan to continue. Thousands of Chattanoogaans have met with my administration to voice concerns and give suggestions for improvement. The process has proved to be a valuable tool to identify strengths and weaknesses within our city. Every concern has been logged and tracked through our 311 system



Photos by Med Dement

(Above): Mayor Littlefield inspects progress on the City Hall Renovation;

(Right): Dan Johnson, Chief of Staff



and citizens for the first time in many years are seeing their neighborhood issues addressed.

As we move into mid-term of my administration, we'll do so with a new police chief. With his help, the community's input and my administration and staff, we will begin to focus our efforts on the youth of our city. Our recreation centers are running better and more smoothly than ever before. Our office of faith based initiatives and community partnerships has pulled together caring youth advocates. Our education, arts and culture department is creating opportunities for expression through the arts and our Stop the Madness program is partnering mentors with at risk youth. It's just the beginning of very important work that must be done to make our city stronger and safer.

We have kept a watchful eye on the taxpayer's dollar. We have worked diligently to identify excesses and misuse of monies and in turn have not raised taxes. We have implemented on campus health centers to hold the line on health care spending, implemented a vehicle use policy, and drastically reduced the amount of fuel usage in our public works department. These are efficiencies we can all be proud of. We will continue to seek out and identify areas of waste and replace them with policies that reflect sound financial management.

I am excited about the future of Chattanooga. The best is yet to come for our great city. I look forward to working with the members of City Council and the citizens of Chattanooga to continue to move forward as a creative, progressive and compassionate city.

Sincerely,



Ron Littlefield, Mayor

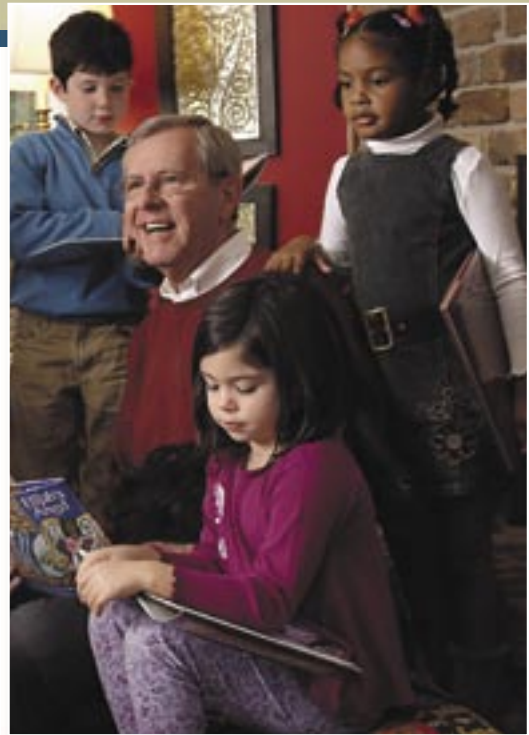


Photo by Wed Dement

(Above): Mayor Ron Littlefield reads to children at Chattanooga Library Board Chair Herb Cohn's home; (Below): Mayor Littlefield and the City of Chattanooga got positive international coverage and attention for premiering The Pursuit Of Happyness with local homeless individuals and service providers in attendance.



Photo by Jim Myers

CHATTANOOGA CITY COUNCIL



Photos by Med Dement



DISTRICT 1
Linda G.
Bennett



DISTRICT 2
Sally L.
Robinson



DISTRICT 3
Dan B. Page,
Vice
Chairman



DISTRICT 4
W. Jack
Benson, Sr.



DISTRICT 5
John P.
Franklin, Jr.



DISTRICT 6
Marti P.
Rutherford



DISTRICT 7
Manuel Rico



DISTRICT 8
Leamon
Pierce,
Chairman



DISTRICT 9
Debbie C.
Gaines



City of Chattanooga

Ron Littlefield
Mayor

DEPARTMENT OF FINANCE AND ADMINISTRATION
CITY HALL ANNEX

Daisy W. Madison, CPA
City Finance Officer

Chattanooga, Tennessee 37402

OFFICE: (423) 757-5230 • FAX: (423) 757-0525

November 29, 2006

To the Honorable Mayor Ron Littlefield, Members of the City Council and the Citizens of Chattanooga, Tennessee:

In compliance with state and local statutes, I am submitting the Comprehensive Annual Financial Report (CAFR) of the City of Chattanooga for the fiscal year ended June 30, 2006. These ordinances and statutes require that the City of Chattanooga issue annually a report on its financial position and activities, and that an independent firm of certified public accountants audit this report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations,

management of the City of Chattanooga has established a comprehensive internal control framework that is

designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Chattanooga's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this report is complete and reliable in all material respects.



Daisy W. Madison, Finance Officer

Photo by Med Dement

The City of Chattanooga's financial statements have been audited by Hazlett, Lewis & Bieter, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Chattanooga's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first item in the financial section of this report.

The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. These reports are in a separate Single Audit section.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the

basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Chattanooga's MD&A can be found immediately following the financial statement report of the independent auditors.

GOVERNMENTAL STRUCTURE, ECONOMIC CONDITIONS AND MAJOR INITIATIVES

PROFILE OF THE GOVERNMENT

Founded as a ferry landing and warehouse site in 1815, the City of Chattanooga was incorporated under State of Tennessee Private Acts of 1839. The City is the county seat of Hamilton County and is located near the southeastern corner of the state on the Tennessee-Georgia border. It encompasses an area of 144.16 square miles and a population of 154,762. The City is centrally located in relation to other major population centers of the southeast, being within a 150-mile radius of Knoxville and Nashville, Tennessee; Birmingham, Alabama; and Atlanta, Georgia. Over 11 million people live within a 2 to 2 1/2 hour drive of Chattanooga. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also has the power to extend its corporate limits by annexation in accordance with procedures under an "Urban Growth Plan" agreed to between the city and the county.

The City operates under a Mayor/Council form of government. The Mayor is elected at-large and is not a

member of the City Council. The Council is composed of nine members, with each member being elected from one of nine districts within the geographic boundaries of the City. The Mayor and Council are elected for four-year terms. The Mayor is the City's chief executive officer and oversees the operation of all City departments.

The City provides a full range of municipal services including but not limited to fire and police protection; sanitation services; construction and maintenance of highways, streets and infrastructure; recreation and cultural activities; public library; community development; planning and zoning; neighborhood services; social services; and general administrative services. It also operates a storm water maintenance program and a sewer and sewage facility system for

its residents and for other communities in southeast Tennessee and northwest Georgia.

The annual budget serves as the foundation for the City's financial planning and control. The City Finance Officer obtains information from all City departments and agencies for which appropriations are made and/or revenues are collected and compiles the operating

(Below): The Chattanooga Community Resource Center "CCRC" will be designed to assist homeless individuals and families by providing a central location that has all of the supportive services needed and a streamline process that helps them transition out of homelessness and puts them back onto a path of success – a new solution to an old problem that saves money, time and most importantly lives.

Page seven (top to bottom): CCRC Renderings – Carta bus stop; entry to pavilion; pedestrian street (12th Street)



SPONSORED BY AIA 150 CHATTANOOGA



budget for submission to the Mayor. During the months of May and June, the City Council hears budget requests from the departments and agencies at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage. The budget is legally enacted through passage of an ordinance with an operative date of July 1. The appropriated budget is adopted on a departmental basis; the legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental transfers within the General Fund. Budget-to-actual comparisons are provided

in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the basic financial statements for the governmental funds. The budget-to-actual comparisons for the remaining governmental funds with appropriated annual budgets are presented in the governmental fund section of this report.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements may be best understood when it is considered from the broader perspective of the specific economic environment within which the City of Chattanooga operates.

THE CITY'S ECONOMIC FUTURE

Employment in the Chattanooga area is diverse. The top employment sectors of trades, transportation, and utilities (23.4%), government (14.4%), manufacturing (14.6%), professional and business services (10.7%), education and health (10.2%), and leisure and hospitality (9.2%) comprise 82.5% of the workforce. Employment in the retail service sector is driven, in part, by the presence of Hamilton Place Mall, Tennessee's largest. The 1.4 million-square-foot mall has brought in many tourists and locals with a mix of new and familiar stores, theme restaurants and movie theaters. Thanks to the mall, the area has become a retail hotbed with more than 15 million visitors a year.

Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural

(continued on page ten)

EDUCATION, ARTS & CULTURE – We Connect the Dots!



"Art is the true language of education."

**– Missy Crutchfield
Administrator**

Photo by Med Dement

EAC Mission:
**To effectively utilize
our civic facilities
by developing a broad
base of programs
to give residents of
all ages, incomes and
ethnicity a chance to
connect the dots between
issues and the arts.**

The Department of Education Arts & Culture (EAC), led by Administrator Missy Crutchfield, is the creative office of the Littlefield administration. This department is where ideas flow and creative opportunities flourish for education and outreach. Numerous projects are underway and some of the highlights of 2006 include:

- EAC manages and operates the Tivoli Theatre, Memorial Auditorium, and Community Theatre. EAC's goal is to fully utilize these facilities by soliciting new users and promoters, expand marketing to new audiences, while educating and informing the community of the value and economic impact of the arts.
- This administration values the arts. EAC will use all its available spaces to enhance art, education, and cultural opportunities wherever and whenever possible. Current programming exists in the Glenwood, Brainerd, Carver, Westside and Sheppard Recreation Centers, as well as Heritage House in East Brainerd. EAC also provided summer programs in 2006 for young people at First Centenary United Methodist and Olivet Baptist Churches.
- The North River Civic Center and Eastgate Senior Activity Center provide quality educational, arts and cultural programming for the city's mature population.
- Remember Your Dream initiative and parallel programs were unveiled and continue to inspire young and old alike to follow their dreams.

EAC Administrators discuss Memorial Auditorium production with stage crew.

- Founded "In the City" Magazine, a free publication that focuses on education, arts and cultural events that are happening in and around Chattanooga. The publication is in partnership with the Chattanooga Times Free Press and Allied Arts. Due to its tremendous success and reception by Chattanooga residents, the publication has grown from quarterly in 2006 to monthly in 2007.
- Produced Connecting the Dots, a summit where arts and social organizations and government entities came together to expose and confront a myriad of issues facing Chattanooga and how these different organizations can rally to conceive solutions. This event, spearheaded by EAC joined together Allied Arts and the United Way for the first time ever.
- Co-founded the Chattanooga and Southeast Tennessee Film Commission which promotes the natural beauty and historic heritage of Chattanooga to attract local, regional and national filmmakers to create movies in our area; thereby, promoting economic development and employment growth. Make no mistake – The Arts Mean Business!

EAC emphasizes mentoring, new approaches to literacy and learning, purpose-driven social networking events, multi-cultural outreach, and gender-specific programs for boys and girls emphasizing healthy relationships and peer-to-peer programs. Our anti-gang initiative emphasizes team building and arts-based career programs. And we're just beginning! Programs and partnerships for 2007 include:

- Create a "Leadership Think Tank Roundtable" that will bring together a multitude of agencies that will collaborate in ways to enrich our community. This is in collaboration with the Chamber of Commerce's Leadership Chattanooga program.
- Initiate First Fridays – a safe place where teens can experience and engage in a host of different artistic experiences.



Photo by Med Dement

- Begin after school programming at Howard, Barger and East Lake Academy.
- Create a booklet which focuses on preventing and avoiding negative behaviors (bullying, smoking, substance abuse) among the city's teens. Illustrations will be provided by the city's youth and a PSA contest will be launched. The PSA chosen will be used in a city-wide cessation campaign.
- Produce the second annual Connecting the Dots summit where issues facing Chattanooga will be explored in greater detail.

EAC is a comprehensive convener and catalyst for youth and community development city-wide. We continue to develop innovative approaches to arts-based literacy distinct from programs offered in the public schools, but in partnership with the schools. Our programs and events are open to the entire community and we've ONLY JUST BEGUN! Watch for more exciting programs and events in 2007! *There's a role for everyone to play!*

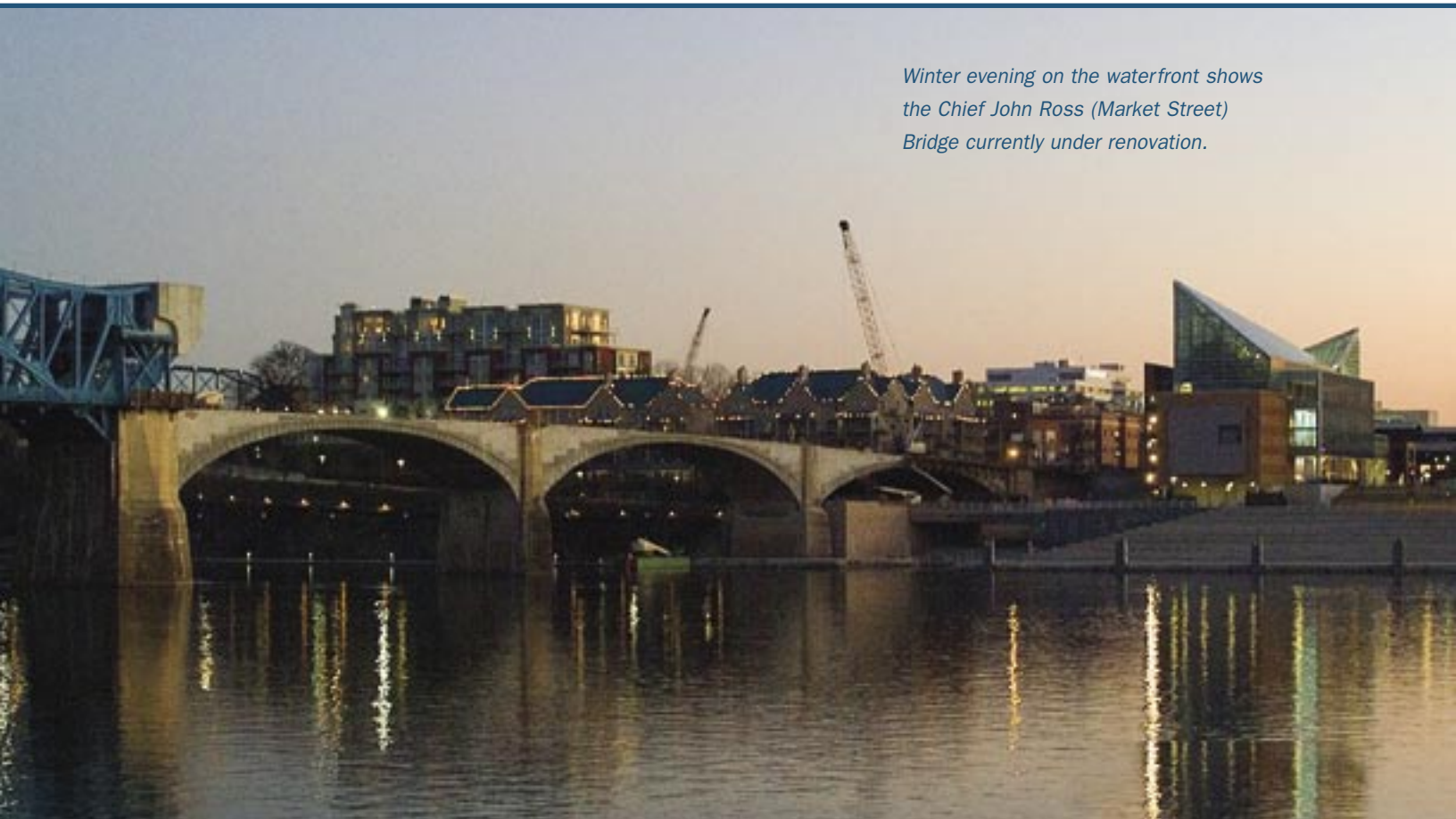
resources and competitive cost of doing business. The local unemployment rate of 3.8% remains significantly below the state average of 4.6 % and the national average of 4.6% as of September, 2006.

A solid foundation has been laid for Chattanooga's future. The opening of the 21st Century Waterfront in April 2005 marks the culmination of a vision first conceived by Chattanoogaans in the early 1980's. Through the work of the publicly commissioned Moccasin Bend Task Force, Chattanoogaans created a shared dream for riverfront redevelopment over twenty years and across 22 miles. With the opening of the waterfront, the connection is completed twenty years to the month from the publication of the Tennessee Riverpark Master Plan. Construction is nearly complete

on all components of the 21st Century Waterfront Plan. Thirty-five months in the works, the \$120 million waterfront initiative includes major expansions to the Tennessee Aquarium, the Creative Discovery Museum and the Hunter Museum featuring new attractions ranging from a glass-floored walking bridge to a 160-foot pier illuminated by towering light columns. It also include public green spaces, and urban wetland, boat docks and a downtown-to river-side pedestrian link with dazzling artwork that evokes American Indian history. Chattanooga's tourism has received a recent boost nationwide with articles in the New York Times, Los Angeles Times, Atlanta Journal-Constitution, and Better Homes and Gardens and Southern Living magazines.

Photo by Med Dement

*Winter evening on the waterfront shows
the Chief John Ross (Market Street)
Bridge currently under renovation.*



Enterprise South Industrial Park, a designated TVA Megasite jointly controlled by the City of Chattanooga and Hamilton County, is in a prime location offering access to transportation, technology, research, a skilled labor pool, and a first-rate quality of life which includes an affordable cost of living.



Photo by Med Dement

The \$120 million public-private investment in the waterfront came on the heels of a \$129 million investment in Chattanooga's Southside area which was completed in 2003. The Southside project provided an expanded Convention and Trade Center, parking garage, a Development Resource Center, and The Chattanooga, a premier meeting facility. The new \$26 million Electric Power Board headquarters building opened this year in the central downtown business district between these two major developments. Within the past three months, development projects have been announced which will include \$14.5 million in the Southside area for retail and office, \$27 million north of the central business district for townhouses, and \$60 million on the north shore of the river for retail and condominium. Plans to build a new hotel on the western edge of the downtown business district were announced in August.

The overall health of our existing manufacturing employers is good, with 700 manufacturing jobs being created in the area within the past year. In addition, ten of our local manufacturers have announced expansion plans which will add another 900 to jobs to the area over the next two years, with capital outlay in excess of \$60 million.

Blue Cross Blue Shield of Tennessee is currently in the first phase of a \$300 million office campus just west of the central business district. The project, scheduled for completion in 2009, will house the entire workforce of the company and will provide an estimated 2000 construction jobs during this time. Memorial Hospital has announced a five-year, \$320 million expansion project to its hospital campus which is ultimately expected to create 700 new permanent jobs in the local health care industry.

Transportation is another key to a vibrant economy. The Chattanooga area is served by three interstate highways, six U. S. highways, railways, airlines, bus service, and the Tennessee River system. Direct flights are available to ten major cities. On the Tennessee River, construction has begun on a multi-year \$318 million replacement project for the Chickamauga Lock which will enhance river traffic for years to come.

The crown jewel of opportunity for the Chattanooga area is the Enterprise South Industrial Park. Continuing efforts are underway by the City and County Mayors, the Chamber of Commerce, the State and the region to recruit businesses to the area. The old Volunteer Army Ammunition Plant has been reborn as perhaps the finest

industrial park in the Southeastern United States. This TVA-certified Megasite has been the focus of the City, County, State, and Federal investment. City and County governments have invested over \$31 million to date. Including state and federal dollars, the total investment is a planned \$60 million. The land is located within the corporate limits of Chattanooga and represents the greatest regional development site the City has seen. It is served by a new interstate connection with I-75 as well as by two competing rail lines. Government leaders in Tennessee and Georgia have joined forces in an effort to recruit a large manufacturer to the area, recognizing that a large plant within Chattanooga will have a significant long-term regional impact on our economy and job markets.

The Enterprise Center serves as an umbrella organization overseeing a number of federally funded entities, many of which have a technology focus. From fuel cell development to heavy duty vehicle wind drag studies to electric and Maglev high speed ground transportation alternatives, each of the independently run entities overseen by The Enterprise Center have come together to form a Council of Managers, encompassing the heads of each agency. As a result, The Center has poised itself as a virtual stage where ideas are presented and acted upon for the sake of efficient technology and to ensure the economic future of the area.

Downtown is unquestionably important, but there is more to “the greater city” than downtown. Mayor Littlefield recognizes that nothing is more essential to a healthy city than healthy neighborhoods. Beautiful, clean, safe neighborhoods continues to be a primary focus of this administration as well as ensuring that all

Chattanoogans enjoy the benefits of the City’s renewed downtown and rising economic tide

During the past five years, general fund revenues have grown at a faster pace than expenditures. Revenues and transfers in have increased 7.14% while expenditures and transfers out have increased 3.49%. The City’s two biggest local revenue sources, property tax and sales tax, grew 8.10% and 17.35% respectively during that period. The increase in sales tax revenues is largely attributed to the return of a nine percent cut in state shared revenues and a favorable retail environment. The sales tax increase is net of the portion earmarked for education which is now collected by Hamilton County. Property tax rates were decreased by 31.7 cents (from \$2.519 to \$2.202/\$100 assessed valuation) in 2005 due to a property reappraisal. This favorable revenue trend along with sound management has allowed the City to increase its general fund balance from \$35,967,695 to \$50,042,710 or 39.1% over the past five years. The City’s unreserved fund balance increased from \$28,860,723 to \$45,138,561 or 56.4%. Over \$8 million of these reserves have been appropriated as pay-go-capital for Fiscal Year 2007.

BUDGET HIGHLIGHTS

For the fifth consecutive year tax increases and layoffs have been avoided by a combination of more effective management and economic growth. This budget provides the resources for continued investment in the long term fiscal health of this community.

The City’s continues its chattanoogaRESULTS and vacancy control programs that began in February 2002. These programs ensure accountability by providing

for regular review and monitoring of departmental performance by the Mayor, the City Finance Officer and other senior City officials. The City published its second annual performance report to the citizens of Chattanooga. The report not only gives residents an update on how city services are responding to their needs, it also provides department heads and managers with quantifiable information to assess performance in meeting the City's goal of efficient and effective management of resources in providing quality services to the citizens of Chattanooga.

CASH MANAGEMENT POLICIES AND PRACTICES

Cash temporarily idle during the year is invested in commercial banks and savings and loan certificates of deposit as well as various instruments guaranteed by the United States Government. These instruments have terms ranging from one week to one year. Cash idle for a longer period of time is invested in longer-term government securities. Due to statutes of the State of Tennessee, the City is limited in the investment methods it may utilize. Changes in the fair value of investments are reported as investment income or loss.

RISK MANAGEMENT

The City manages exposure to risk of loss through several methods including contracts with commercial carriers for property insurance, surety bond coverage of officials and employees, and commercial liability coverage. The City assumes the risk of loss for general liability not covered by commercial carriers. To minimize its losses, the City has implemented various risk control

techniques such as safety inspections and safety training classes. As part of the City's risk management program, resources are being accumulated in an Internal Service Fund to meet potential losses relating to general liabilities and tort claims. Reserves are accumulated in the General Fund to meet potential losses for all other exposures. Additional information on the City's risk management activity can be found in the notes to the financial statements.

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The City provides retirement benefits through three single-employer defined benefit pension plans that cover all employees. One plan covers general City employees; a second plan covers employees of the Electric Power Board; and the third covers firefighters and police officers. Each of these plans is maintained separately and engages an independent actuary to calculate the amount of annual contribution that must be made to each plan to ensure the plans will be able to fully meet their obligations to retired employees on a timely basis. As a result of the City's conservative funding policy, all plans are fully funded.

The City also provides postemployment health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 920 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Additional information on the City's pension arrangements and postemployment benefits can be found in the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chattanooga, Tennessee for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the fourteenth consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

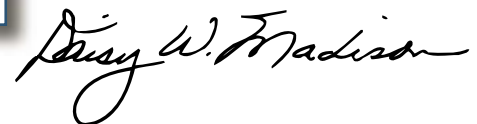
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The City also received the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget for each of the ten fiscal years for which it applied. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

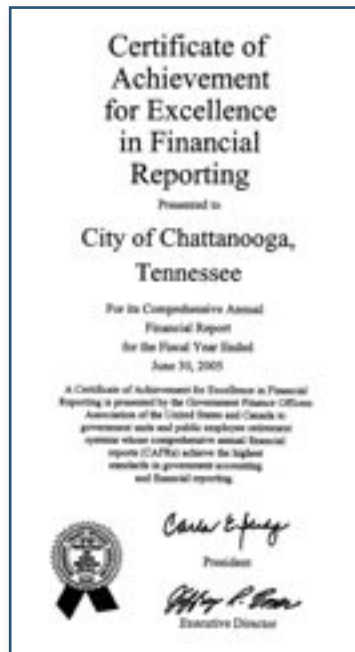
The preparation of this report could not have been accomplished without the professional and dedicated services of the entire staff of the Finance Department and the City's independent public accountants, Hazlett,

Lewis & Bieter, PLLC. We would like to express our appreciation to members of various City departments who assisted and contributed to the preparation of this report. Further appreciation is extended to the Mayor and the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Respectfully submitted,



Daisy W. Madison
City Finance Officer



Finance Department staff prepares data for annual financial report

Photo by Jim Myers

CITY OFFICIALS AS OF JUNE 30, 2006

RON LITTLEFIELD, MAYOR

L. Dan Johnson, Chief of Staff

CITY COUNCIL:

Leamon Pierce, Chairperson.....	District 8
Dan B. Page, Vice Chairperson	District 3
Linda G. Bennett	District 1
Sally L. Robinson.....	District 2
W. Jack Benson, Sr.	District 4
John P. Franklin, Jr.	District 5
Marti P. Rutherford	District 6
Manuel Rico.....	District 7
Deborah C. Gaines.....	District 9



COURTS:

Sherry B. Paty	City Court Judge
Russell J. Bean.....	City Court Judge
Edward C. Hammonds	City Court Clerk

DEPARTMENT ADMINISTRATORS AND DIRECTORS:

Legal	Randall Nelson	City Attorney
Legislative.....	Carol O'Neal	Clerk of the Council
Finance & Administration.....	Daisy W. Madison.....	Administrator
Education, Arts & Culture.....	Missy N. Crutchfield	Administrator
Fire	Chief Wendell G. Rowe.....	Administrator
Human Services	Bernadine Turner	Administrator
	Tommie Pruitt	Deputy Administrator
Neighborhood Services	Beverly P. Johnson	Administrator
Parks & Recreation.....	(Vacant)	Administrator
Personnel	Donna Kelley.....	Administrator
Police	Chief Steven M. Parks.....	Administrator
Public Works	Steven C. Leach.....	Administrator
	D. Lee Norris.....	Deputy Administrator

Brian Smart	Manager, Financial Operations
Fredia F. Kitchen	Budget Officer
Gayle P. Keown	Treasurer
Mark J. Keil.....	Director, Information Services
Gene D. Settles	Purchasing Agent
Paul R. Page.....	Director of Asset Management
Stanley L. Sewell.....	Director of Internal Audit
Jeffrey E. Claxton.....	Risk Manager
Henry W. Yankowski	Director, Codes and Inspection
James H. Templeton	Director, City Wide Services
Jerry W. Stewart.....	Director, Waste Resources
William C. Payne	City Engineer
John Van Winkle	City Traffic Engineer
Harold E. DePriest	President and CEO, Electric Power Board
David F. Clapp.....	Director, Chattanooga - Hamilton County Bicentennial Library
Michael J. Landguth	President and CEO, Metropolitan Airport Authority
Barry M. Bennett.....	Director, Regional Planning Agency
Robert H. Colby	Director, Air Pollution Control
(Vacant)	Director, Scenic Cities Beautiful Commission

ORGANIZATIONAL CHART



CITY OF CHATTANOOGA

